

## 1. Introduction

1.1 Following on from the committee's oral hearing on 24<sup>th</sup> June, at which Cllr Muhammed Butt, London Councils' Executive Member for Welfare, Empowerment and Inclusion gave evidence, London Councils would like to submit this supplementary evidence for the committee's consideration. This submission deals with a number of areas where committee members requested additional evidence during the hearing.

## 2. Pan-London Universal Credit Rent Arrears Research

2.1 London Councils has coordinated a new piece of research on the impact of Universal Credit on rent arrears carried out by the Smith Institute. The research is based on analysis of 3,373 rent accounts of tenants across 12 London boroughs. The report is still being finalised for publication but we have included the headline findings here for the committee's information.

2.2 The key findings are as follows:

- Tenants' rental balance worsens for the majority after they claim Universal Credit. 64 per cent of tenants were in a significantly worse financial situation at the end of the research period than at the time they claimed Universal Credit.
- Rent arrears are high in the initial weeks as tenants move on to UC and are not repaid. On average tenants build-up £240 of rental arrears after they make a UC claim.
- In the initial week the majority of accounts are in arrears - suggesting payment issues are not confined to a minority but are widespread. However, a minority of larger underpayers contribute significantly to the total level of arrears.
- Alternative Payment Arrangements are shown to slow the growth of such large arrears and their early use does so faster.

2.3 These findings suggest:

- The high level of arrears in initial weeks mean efforts to reduce the wait between a successful claim and a tenant receiving payment would help reduce arrears which appear hard to pay down.
- Advances are available for those making new claims for Universal Credit and who need money urgently. While advances are not identified in the report, the availability of advances seems not to prevent significant and lasting new arrears from occurring.
- New arrears may be hard to pay down due to other features of the Universal Credit system. First, Universal Credit is paid one month in arrears which effectively creates a cash-flow loss for claimants and social landlords compared with the legacy system – especially for council tenants. Second, that loss may be compounded by the very high levels of deductions from ongoing benefit that are a feature of Universal Credit that are known to affect large numbers of claimants.
- The impact that Alternative Payment Arrangements have suggests that greater freedoms for tenants and landlords to have Universal Credit payments made directly to landlords should be considered as a way of reducing arrears. One option would be to direct payment to the landlord as the default option as it is in Northern Ireland.

- 2.4 Unfortunately, local authorities limited data access means that this research cannot answer some of the questions posed by the committee during the information session. For example we do not know which tenants included in the research were new claimants and which were migrating naturally to Universal Credit. As such we cannot provide a definitive answer as to whether the differing circumstances of claimants undergoing natural migration and those making new claims has an impact on rent arrears. However as the research found that a significant majority of tenants saw increasing rent arrears following their claim to Universal Credit we can conclude that both new claimants and those undergoing natural migration experience financial distress as a result of the five-week wait, although the extent of this impact may differ.
- 2.5 The committee was also interested in whether a 'life changing' event in the lead up to a claim to Universal Credit could be the cause of financial distress rather than the design of Universal Credit itself and the research sheds some light on this question. The data shows that arrears start to build up in the period prior to a tenant claiming Universal Credit, suggesting that the circumstances of tenant that causes them to claim Universal Credit does indeed lead to increase rent arrears. However it is only after a tenant makes a claim for Universal Credit that the level of arrears starts to rise rapidly. In addition the level or likelihood of new rent arrears after a claim for Universal Credit cannot be predicted from the level of arrears at the time the claim is made.
- 2.6 This evidence firmly suggests that it is the experience of Universal Credit itself that has the biggest impact on rent arrears. Claimants may be experiencing financial distress in the lead up to claiming Universal Credit but that distress is compounded rather than ameliorated by the five-week wait, leading to a rapid increase in rent arrears after claiming.
- 2.7 This research tells this story of financial stress through analysis of tenant rent accounts. As such, the report does not highlight the human experience of rent arrears. However, the financial and emotional stress is perhaps implied in data which shows the extent to which households fail to pay their rent and arrears mount up.

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